

Congress of the United States
House of Representatives
Washington, DC 20515

April 27, 2009

The Honorable Nancy Pelosi
Speaker
U.S. House of Representatives
H-232, The U.S. Capitol
Washington, D.C. 20515

The Honorable Henry Waxman
Chairman
Committee on Energy and Commerce
2125 Rayburn House Office Building
Washington, D.C. 20515

The Honorable Edward Markey
Chairman
Subcommittee on Energy and the Environment
2125 Rayburn House Office Building
Washington, D.C. 20515

Dear Speaker Pelosi, Chairman Waxman, and Chairman Markey:

As members of the Congressional Steel Caucus, we recognize addressing climate change to be a challenging legislative task of immense complexity and often competing interests. Our objective in writing is to emphasize the vital importance of addressing the international competitiveness issue confronting American producers and workers if they are forced to incur new costs and burdens not placed on their foreign competitors.

The current economic recession is exerting disproportionate harmful impact on the manufacturing sector in general, and on steel-producing regions of the country in particular. We must be cautious about further burdening these important segments of American society.

Dealing with the competitiveness issue is essential to both the environmental goals of climate legislation, and to ensuring the health and viability of American manufacturing, and is of great importance to the members of the Steel Caucus. We are proud of the domestic steel industry's ability to reduce total energy consumption by more than 33 percent since 1990 and believe the direction of this trend will continue because it makes good business sense. However, placing additional costs on American producers and workers without ensuring commensurate treatment of their international competitors will result in disastrous consequences to the American economy. American production will simply be displaced by production in foreign countries without similar environmental requirements, and often with far greater per-unit emissions of greenhouse gases. In other words, U.S. industries and jobs will be lost and global greenhouse gas emissions will rise.

While legislative proposals to fight climate change, including the discussion draft issued by Chairmen Waxman and Markey, include provisions that acknowledge the issues of competitive disadvantage and carbon leakage, further refinement is necessary to address our underlying concerns. In order to craft comprehensive competitiveness provisions that satisfy the needs of domestic producers and protect American jobs, several elements are necessary beyond the foundational work that must first be done to build sufficient low-carbon electricity infrastructure for the nation, greatly expand low carbon technology research and development, and foster energy conservation throughout the economy.

First, under a cap-and-trade system, there must be sufficient allocation of allowances or rebates to energy-intensive and trade-sensitive industries, such as steel, which will face a competitive disadvantage due to the imposition of new carbon costs. They must also be structured to provide an incentive to maintain or increase domestic production and should only compensate for costs associated with production in the United States. Allocations or rebates to manufacturers will also do much to address the concerns of finished goods producers and exporters by limiting the cost of energy-intensive inputs.

Second, any climate legislation should include from the outset an effective mechanism to ensure that imports are subject to additional costs and burdens that are placed on domestic production beyond those mitigated by allocations or rebates. Given the uncertainty of whether an allowance program will be sufficient to cover all incremental costs from a new climate regime, it is essential that any climate policy include an import mechanism. Such a mechanism can and should be fully compatible with an allowance program as described above, and can be structured to verify that imports only face burdens also imposed upon domestic production.

Third, in addition to a combination of allocations or rebates and border measures, climate change legislation should address the fact that there are some emissions which are the unavoidable result of the chemical processes necessary to produce certain products such as steel. No technology available today – or in the foreseeable future – can eliminate the release of carbon dioxide in the essential process of transforming iron ore into steel. Including such emissions under a national cap aimed at reducing emissions could only be accomplished by shutting down domestic production.

Fourth, the caucus wishes to encourage recycling. The entire domestic steel industry is using more scrap metal and other recyclable materials as raw material feedstock. Such use can significantly reduce energy consumption and even avoid greenhouse gas emissions. Recycling offset credits or allowances should be part of comprehensive greenhouse gas legislation.

Effective measures to ensure a level playing field for our workers and companies are not simply advisable, but imperative – whether they are done in the current economic environment or even during more stable conditions. Addressing these critical issues that domestic manufacturers will face under a climate change program is essential if we are to reduce our carbon emissions, as well as provide an incentive for others to join that commitment. Access to our market is the greatest leverage the United States has in dealing with the rest of the world. If countries like China, India, Russia and others are given a competitive advantage in this market due to insufficient competitiveness measures; it will be very difficult to gain their cooperation in solving this global challenge.

Again, we look forward to working with you in a constructive way as legislative proposals move forward. Solving environmental problems and maintaining a competitive American manufacturing base are not mutually exclusive. The next generation of green products can and will be built here in America and many will be built with steel, but only if Congress takes steps to guarantee that that production is not unnecessarily squandered and that industries like steel have an important role to play in the global, green economy.

Sincerely,

Peter J. Virduly

Kathy Dahlke

Joe Wilson

Michael A. Lee

Debbie Halvorson

T. Hill

Mulley Moore Caputo

Jim O'Rourke

Tim Murphy

Chad Wilson

Jon Altmire

Joe Donnelly

Gregory T. Costello

J.P. Hunt

Marion Berry

Alan B. Mollohan

Paul E. Karjane

Steve Byrne

Mark Louch

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